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International Outlook 1984

The Corporate Perspective

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"WHAT A DIFFERENCE a year makes! There is no use pretending that we correctly gauged the early strength of the U.S. economic recovery. What seems even more impressive about this year's return to growth is its 'normalcy.' It really is beginning to look just like the normal recovery, rather than the new breed many of us corporate economists seemed to be expecting last year."

Thus wrote a contributor to the Conference Board's eighth annual survey of economists, planners and analysts in U.S. private industry concerning the economic outlook abroad. As in previous years, the panel members were asked for their assessment of economic prospects in the countries "that are important to your company's foreign operations or on which you normally gather information." The following report is based on the replies received from respondents in twelve major business organizations. Seven of these are among the two hundred largest U.S. industrial corporations as listed by *Fortune;* five are prominent in the communications, financial and transportation sectors.

The difference between the responses given a year ago and those in the present survey was, indeed, striking. Not only was the worldwide economic climate vastly different, with economic recovery under way to varying degrees in all the major industrial countries, but, the panel's discussion focused more than in previous years on the global economic environment—particularly the dominant role played by the United States. In line with this approach, there also was increased discussion of the effect of the strength of the dollar on both economic conditions abroad and the foreign operations of the panelists' own companies.

One further difference from previous years is worth mentioning, for the sake of honest reporting. Several organizations that had contributed to previous surveys declined to do so this year, for a variety of reasons. These ranged from "recent organizational changes" and "reorganizing our short-term forecasting activities" to "staff reductions and commitments in other priority areas." These admissions undoubtedly reflect the lingering effects of the recent recession. Still, they are slightly surprising if one considers that international business has become an increasingly important part of their overall operations for many companies; therefore, one might expect more, rather than less, attention to the economic outlook abroad.

It is also worth stressing that most of the data and the qualitative assessments that were submitted were originally prepared for internal corporate use. Hence, they are merely estimates of the ranges within which certain parameters might fall in the near term or, as one respondent wrote last year, "what we regard as the most likely course" through the company's planning period. In a similar vein, one of this year's panel members commented: "Rather than prepare something especially for you, I think it is more legitimate to send the economic assumptions on which our current plan is being built. These were prepared in June, and it is certainly likely that if I were to go back to the drawing board and rerun my forecasts using the most recent data, there would be lots of changes. Still, I have been in this business a long time and am beginning to learn that the most recent data are often not that helpful. The road through the 1980's may yet be pretty bumpy, so I don't rule out a pretty sharp slowdown despite recent upward revisions."

General Overview

All the forecasts, official and private, being made in the second half of 1983 envisage a more favorable world economic climate than a year earlier. But that does not mean that the outlook is all rosy. Thus, in its midyear economic review, released last July, the Organization for Economic Cooperation and Development (OECD), which encompasses the 24 major industrial countries, noted: "The long-expected recovery now seems to be getting under way. By last December the current and leading indicators were suggesting fairly generally that. . .recovery was finally imminent. And, as the new year unfolded, this was progressively confirmed." But, while the outlook was "most solid for the United States," with a growth rate of "perhaps 4.5 percent" in

Table 1: Official Growth and Inflation Forecast (Percentage changes at annual rates)

	From Previous Year		From Previous Half Year		
	1983	1984	1983 Second Half	1984 First Half	1984 Second Half
Growth Real GNP					
United States	3.0	4.25	6.0	4.50	3.75
Canada	2.0	4.75	4.25	5.0	4.75
Japan	3.25	3.50	3.0	3.50	3.75
France	-0.50	0.50	-1.0	0.75	1.0
Germany	0.50	1.75	1.50	1.75	1.75
Italy	-0.50	2.0	2.25	1.75	2.0
United Kingdom	1.75	2.25	2.50	2.25	2.25
All seven countries	2.0	3.50	4.0	3.25	3.0
Other OECD countries	0.75	2.0	1.75	2.25	2.25
Total OECD	2.0	3.25	3.50	3.25	3.0
GNP Deflators					
United States	5.0	5.0	4.75	5.0	5.25
Canada	6.50	6.0	5.75	6.0	6.25
Japan	1.50	2.25	1.75	2.25	2.50
France	10.0	8.25	9.0	8.25	7.50
Germany	3.50	2.50	3.25	2.25	2.50
Italy	15.50	12.25	13.0	12.0	12.0
United Kingdom	5.75	6.0	5.75	6.25	5.75
All seven countries	5.25	5.0	5.0	5.0	5.25
Other OECD countries	10.0	8.50	9.0	8.50	8.0
Total OECD	6.0	5.50	5.75	5.50	5.75

Source: Organization for Economic Cooperation and Development, *Economic Outlook*, July, 1983

1984, and for Japan, with a possible rate of 3 to 3.5 percent, "Europe remains the most uncertain area: It seems most likely that there will be a slow pickup to modest growth in the 1 to 2 percent range, but this cannot yet be said to be unequivocally under way." These divergent projections are shown in Table 1.

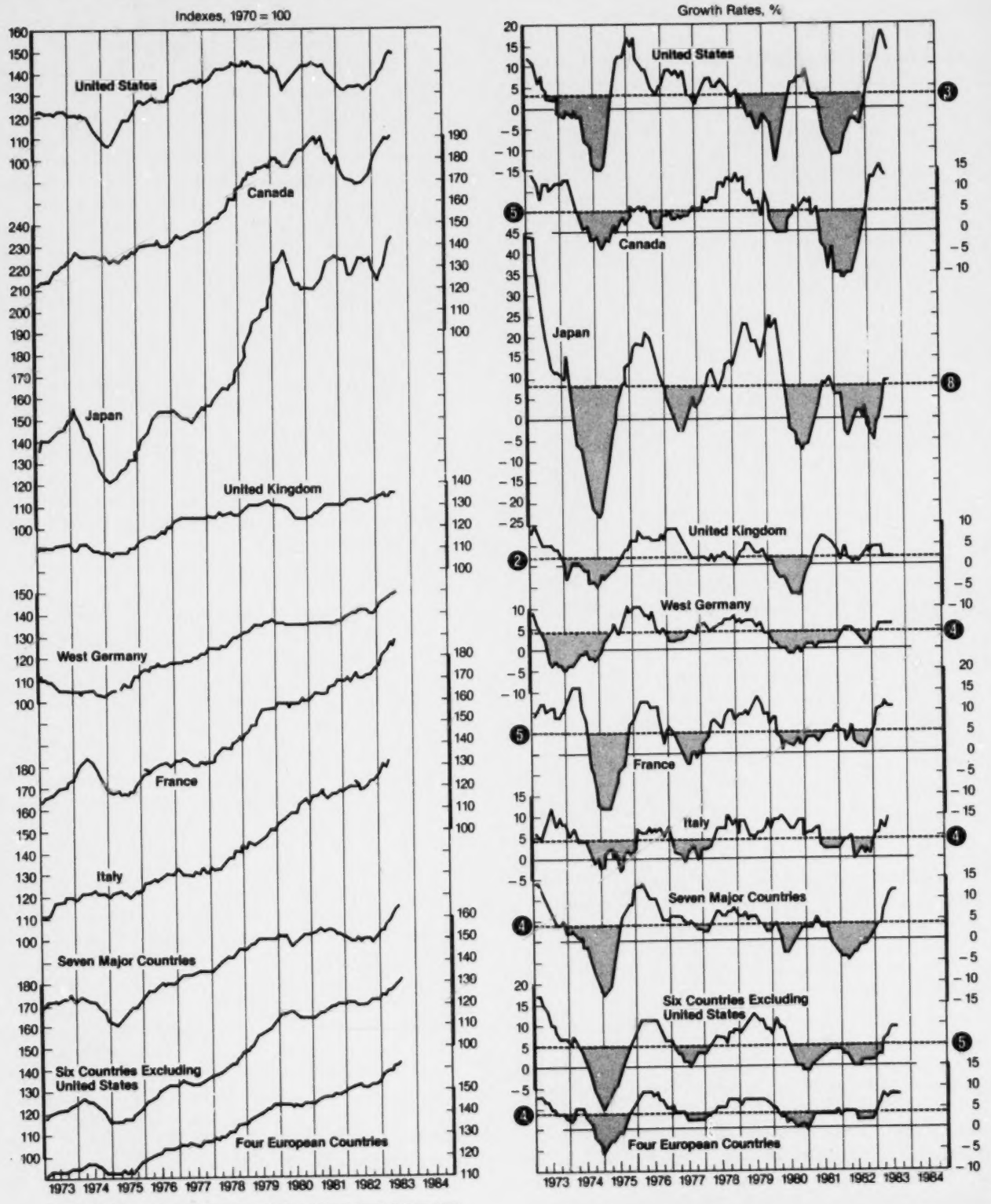
The Conference Board's *International Economic Scoreboard* commented in August in a similar vein that the leading indicators were showing strength in every country except Japan, and that strength in these indexes generally could be considered forerunners of strength in economic performance. By September, this strength was clearly being confirmed, and the *Scoreboard* noted: "The leading indexes for all seven major industrial countries are now on the recovery path. . .For the seven countries as a group the leading index, based on some seventy indicators, registered a growth rate of 12 percent in June. Meanwhile, the indexes of economic performance, which include comprehensive measures of output, real income, employment and sales, seem to be rounding the bend, with the United States and Canada clearly in the vanguard." The leading indexes are shown in Chart 1.

The panel shared this generally optimistic view about the strength of the recovery in the industrial world, although there were some noticeable differences of opinion as to the expected rates of growth in individual countries. Central to virtually every contributor's discussion were developments in the United States (example: "The United States continues to be the world's pivotal economy. Happily for the world, then, all the classic signs of recovery are sprouting here"); the strength of the dollar; and the continuing burden of third-world debt.

One panelist sums it up this way: "Underlying the renewal of growth after the protracted recession has been the general reduction in interest rates and the marked easing of inflation rates. With leading indicators moving upward, business-confidence surveys showing positive results, and the stimulus to global demand emanating from the U.S. recovery, it is reasonable to believe that a sustainable recovery is now under way in the rest of the industrial world. However, under an accumulated burden of structural, fiscal and financial problems, the recovery in most countries is likely to be modest in degree and slow in pace, lacking the vitality of the recovery from the last major recession in 1974-1975."

Another writes: "The strong performance of the U.S. economy in recent months is providing impetus for

Chart 1: Leading Business Cycle Indexes



Source: *International Economic Scoreboard*, The Conference Board, October, 1983

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recovery in other major industrial countries. Recoveries are now under way in Canada, Japan, the United Kingdom and West Germany. And an upturn is assumed to begin later this year in France as well." He adds subsequently: "As in the United States, the most buoyant sectors in these countries are residential construction and consumer durables. In view of the interest-rate sensitivity of these sectors, the industrial economies continue to be vulnerable to swings in monetary policy. A sharp rise in interest rates in the United States or in world financial markets would bring about another downturn in Europe and Canada. The risk of this happening is judged to be about 20 percent, the same as for the United States."

Another concise summary is provided by a third panelist: "We expect 1984 to show a net improvement in the pace of worldwide recovery. However, growth is likely to be below traditional benchmarks. The major industrialized economies (the United States, Canada, Japan and West Germany) should record real growth in the 3 to 5 percent range. The United Kingdom, Spain and France will be on the low end of the growth scale, with real GNP advancing at a rate from 1 to 3 percent. France will be the laggard in Europe."

He also notes that "industrial production will be up, but not dramatically. Once again, the larger industrialized countries, particularly the United States, will be leading the rest of the world. Unemployment is expected to remain high in 1984. The only noticeable drops are projected for the United States, Canada and Australia. In 1984, unemployment in these countries will fall by 1.2 and 1 percent, respectively, from 1983 levels. In most other economies, unemployment will be essentially unchanged. In general, the European economies will have greater difficulty absorbing unemployed workers than will the U.S. economy."

However, there are some hurdles to the unfolding recovery. As another panelist points out: "Foreign exchange rates are out of kilter, causing trade friction and promoting protectionism. Business investment in new plant and equipment will continue to be anemic as corporations use their improved cash flow to strengthen their balance sheets. The high level of unemployment will dilute gains in consumer purchasing power, and the volume of international trade will expand at a modest 2 to 3 percent in 1984—one half the average growth during the 1974 to 1980 period.

"Except for the United States, where a relatively powerful recovery is attracting a hefty volume of imports, sluggish economic conditions will dampen intra-OECD trade flows. Meanwhile, LDC's will trim imports in the face of receding oil revenues or restricted access to new credits, as a result of their overburdened debt positions." Another concludes: "The one setback that neither the industrial nor the developing countries can afford at this stage is another sharp increase in U.S. interest rates that might have an impact on the current fragile recovery."

The Role of the Dollar

The strength of the dollar vis-à-vis other major currencies (shown in Chart 2) plays an important part in virtually all respondents' outlooks for the coming year. "When speculating about the dollar," one panelist writes, "we are talking about a currency which the sheer weight of numbers places in a category by itself. The reasons given to explain the capital inflow continue to range from the desire to protect assets in the United States—in light of political concerns in Central and South America, Hong Kong, and Europe—to the new 'chronic dollar shortage' of debtors scrambling to service dollar debt. They even extend to the mysterious but massive sums involved in the drug trade."

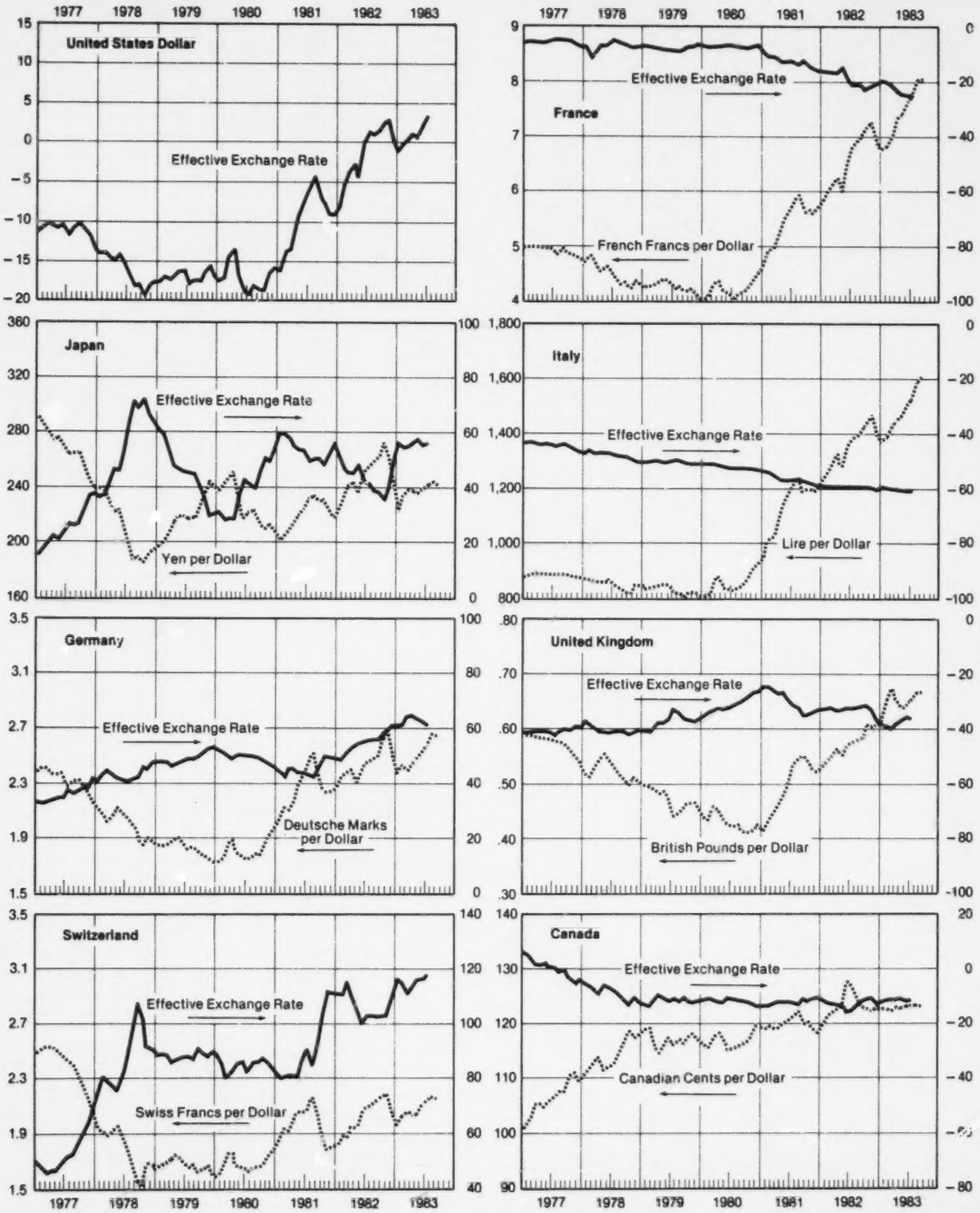
On a somewhat different note, another panelist concludes: "The most important assumption underlying our estimates is the continued strength of the dollar for the remainder of 1983 and into 1984. Although we expect the dollar to remain relatively strong in 1984, we feel that the dollar now may be at, or very near, its peak against other major currencies. The dollar will be supported by the expectation of continued high interest rates resulting from a clash between public and private borrowing. Moreover, the dollar will remain strong because of its role as a haven currency.

"This continued strength. . .has significant ramifications for the world economy. It is likely to moderate the pace of recovery in the United States (through decreased demand for U.S. exports) and thereby help prevent the U.S. economy from overheating. Furthermore, it will attract imports to the United States, thus helping to check the U.S. inflation rate, while providing strength to many of the world's economies and sorely needed foreign exchange to the LDC's."

Writes another: "Insofar as the dollar is concerned, the current trade-weighted value reflects primarily high U.S. interest rates, and the perception of the United States as a safe-haven country. Analysis suggests that sharply rising U.S. trade deficits and anticipated resumed declines in U.S. interest rates will depreciate the dollar about 5 percent a year in 1984, 1985, and 1986." One respondent expects the dollar "at least to maintain its current strength vis-à-vis the 'Socialist' currencies (Spain, France, Italy and Greece), but to lose a little ground against those of Northern Europe."

A final, somewhat offbeat, note is struck by another panel member: "In a floating exchange-rate environment, no currency can remain out of parity for an extended period. Hence, in the current exchange market, the U.S. dollar is rightly valued vis-à-vis other major currencies. The dollar can only be considered strong when compared to the historical rates. The present international value of the dollar reflects fundamental strengths of the U.S. economy, including strong economic leadership, broad-based economic recovery, significant investment opportunities yielding relatively

Chart 2: Foreign Exchange Rates



Effective Exchange Rate for each country indicates changes vis-à-vis a group of 15 major currencies, weighted according to the average bilateral manufactures trade of 1976. Changes are in percent from pre-June 1970 parities, based on monthly averages of daily rates.

Source: Morgan Guaranty Trust

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high returns in a safe environment, and the most favorable attitude toward private business. Within the anticipated recovery pattern of major economies, the U.S. dollar is unlikely to face any devaluation from its current level in 1984."

Respondents whose companies derive a large share—often more than half—of their revenues from outside the United States noted, as one put it, how much companies "were susceptible to foreign-exchange losses when translating foreign earnings into dollars." One panelist (from the transportation sector) remarked that European travel to the United States would be inhibited by the strength of the dollar and that he expected "all of our transatlantic growth to come from the United States."

Major Industrial Countries

The panel's assessment of the outlook for individual foreign countries generally pointed in the same direction, although views differed as to the actual growth and inflation rates foreseen for 1984. Some of these projections are shown in Chart 3, in order to illustrate the range of the "most likely course" anticipated by panel members.

Canada. A former deputy governor of the Bank of Canada noted recently that, paradoxically, Canadians tended to attribute their economic woes of the last decade to the failures of U.S. economic policy and excessive Canadian accommodation to it. He criticized this view, arguing that Canada's general inclination to keep its economy in line with that of the United States had been beneficial, at least in one important respect. Specifically, he said: "It constitutes one of the more effective safeguards. . .from following policies for any length of time that saddle Canada with a significantly higher rate of inflation than that in the United States." Even closer ties with the United States may be in the offing, if recent Canadian proposals for new free-trade agreements (in textiles, clothing and mass-transit rolling stock) should become a reality.

The overwhelming influence of developments in the United States on the Canadian economy was a theme that ran through several comments by the panelists (just as it had, understandably, in previous surveys). One noted: "While Canada's trade balance on manufactured goods improved by more than $7 billion in 1982, fully half of that improvement reflected a shift in U.S. demand back to larger cars, still the major product of Canada's (U.S.-dominated) automobile industry. At the same time, Canada's other foreign markets shrank. A second influence is that of U.S. interest rates. Because the two countries' financial markets are so closely integrated, Canadian short-term rates generally follow those in the United States."

The panel's actual expectations for the Canadian economy in 1984 vary somewhat. Here is a sampling:

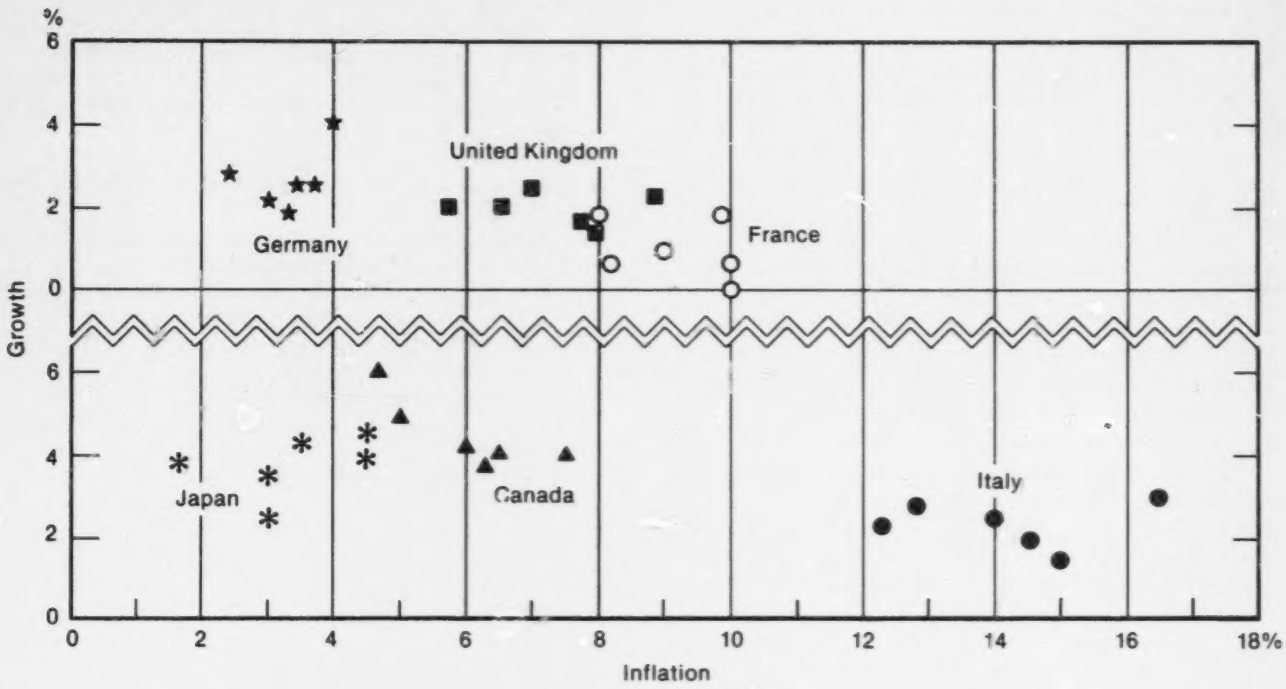
- "The Canadian economy is recovering at a rapid pace, powered in the initial stages by the inventory cycle. Growth in consumption and housing is offsetting declines in business investment this year, but a more balanced recovery is in prospect for 1984 and 1985."
- "There is clearly substantial room for improvement in Canada's economy. Real growth of over 5 percent in 1984, with an inflation rate of less than 5 percent, is expected to result from recovery in the United States (which takes 70 percent of Canadian exports); an upsurge in consumer spending, especially on housing; and a slowdown in inventory liquidation."
- "The recovery promises to be a weak one. Canada's recession was worse than the one in the United States and Prime Minister Trudeau's 'Canadianization' program further discouraged investment. Business spending on new plant and equipment is projected to remain a drag on overall economic activity. Under the scenario of a moderate recovery in the United States, we expect Canada's output to increase by about 4 percent next year. The wage and price control program should help to bring about a continued improvement in inflation next year, at around 6 to 6.5 percent."

Japan. At this juncture, Japan's recovery potential is judged to be somewhat less than during previous upturns, because of both external and internal factors. Exports can no longer be counted on to provide the mainstay for expansion, since they are facing increasing protectionist barriers. Domestic demand is generally expected to remain somewhat sluggish as the government finds its hands tied—in its fiscal policy, by the growing public debt, and in its monetary policy, by the problem of the dollar/yen exchange rate.

These considerations were generally shared by the panel members. "Despite the fact," notes one, "that exports are unlikely to play the leading role in bringing Japan's recovery out of the recession, as was the case in past recoveries, exports once again should contribute importantly to overall economic performance. In addition, no other country benefits as much as Japan from the reduction of oil prices. The stabilization of oil prices at present levels should reduce Japan's oil bill by $7.5 billion per annum. This factor has been incorporated into our forecast of a 4 percent increase in real GNP and a 2 percent inflation rate in the fiscal year ending March, 1984."

In a similar vein, another respondent writes: "Over the longer term, maintaining export-led growth is less feasible, and during the next five years Japan's average economic growth will be slow. This stems from Japan's likely inability to increase productivity as dramatically as in the past, and from a shift in where savings are invested—to housing, transportation and social services. But the slowdown in GNP growth from 5 to 4 percent over the next five years will, of course, be much less

Chart 3: Growth and Inflation in Six Countries, Forecasts for 1984



Observations represent forecasts for growth and inflation rates in 1984 submitted by individual panelists

dramatic than the slowdown from 9 to 5 percent, which took place in the 1970's."

A related comment elaborated on the anticipated slower growth for Japan over the next five to ten years: "An important issue confronting Japan is the aging of its population and labor force. This and other structural changes, including continuing massive trade imbalances and dependence on external sources of energy, could keep the Japanese growth to near 3.5 percent in the 1990's."

A more optimistic view holds that: "Japan is ideally positioned to participate in a U.S.-led recovery, given its product mix and the reputation for the quality of its goods. Moreover, the effect of quotas for several export categories is likely to be muted as Japanese exporters continue to upscale and diversify their products."

On the trade issue, one panelist observes: "It seems somewhat unlikely that the exchange rate for the yen has been manipulated, as has been alleged. Still, there can be little doubt that the Japanese authorities have been able to use the exchange-rate situation to their advantage. Thus, when the yen was weak, they tended to push exports, searching for new markets and cultivating old ones. On the other hand, when the yen was strong, the authorities took the opportunity to build up reserves of raw materials and to expand their foreign investment. At the same time, the flexibility of Japanese prices and companies' ability to reduce their export quotations explain why Japanese exports are relatively insensitive to an appreciation of the yen."

France. On the second anniversary of the French Socialists' election victory last May, a story in *The Wall Street Journal* was headed "France Under Mitterand: Two Years In and Sinking." The article pointed out how President Mitterand initially had set out on a course of social spending, "but within a year it was clear that France was headed for economic chaos. . . .Class struggles and Marxist concepts everywhere permeate newly enacted legislation." At about the same time, *The Economist* headed a piece on France *"Après dirigisme, le déluge."*

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Given this setting, it is understandable that of all the major countries covered by the survey, France easily received the poorest marks. The near-term outlook is summed up succinctly by one panelist, who characterizes it as "fairly lackluster"; while another observes that "current prospects do not look too propitious, especially since the government has taken at least one step backwards and depressed the economy in order to stem foreign-trade deficits and a further depreciation of the franc."

Another respondent cites what he calls France's "negative structural legacy." He notes that checking inflation is much more difficult in a foreign-trade-oriented country with a soft currency, and in an economy where public contracts (in the form of government purchases for hospitals, education and defense) account for some 10 percent of gross domestic product.

Thus, most panelists foresee a 1984 growth rate between 0.6 and 1 percent at best, as "the sharp reversal late in 1982 to a deflationary economic strategy entails a high cost." This cost is substantial: "The entire private sector is burdened by ever-higher taxes and costly social regulations, such as the gradual reduction in working hours without a corresponding reduction in wages or increases in productivity. Aggregate corporate income does not even cover depreciation needs and a large part of industry is near bankruptcy. It is true that some assistance is available for troubled companies in the form of tax rebates, special loans, and interest and export subsidies. But the entire private sector is having its management prerogatives greatly curbed by new labor laws backed by stiff penalties."

All in all, over the next year or two, "the domestic sector will be a drag on the economy and the recovery may be delayed several quarters beyond that of Germany."

Germany. A U.S. financial journalist reported from Germany last Summer that the two most used—and abused—words in Germany at the time were *Wende* and *Aufschwung,* or turnaround and upturn, and that they had "permeated conversation and commentary since Helmut Kohl's coalition government replaced Helmut Schmidt's government in October, 1982."

To judge from The Conference Board's survey, the turnaround has definitively taken place. Overall, the panel sees the outlook for Germany as one of "more substantial growth in 1984," compared to the somewhat "lethargic recovery" of 1983. "The inclination of the new government," notes one respondent, "is to pin the blame for the country's economic climate on the previous one. But the Kohl team is not all that different from Helmut Schmidt's—both have as their key figure the redoubtable economics minister, Graf Lambsdorff."

However, for a country heavily dependent on exports, the somewhat modest pace of recovery throughout most of the world has its negative effects. "Soft markets outside Germany will hamper export growth, as will the country's heavy orientation toward capital goods exports, which will lag considerably in the present cycle. Year-over-year, real GNP will grow by 1 percent in 1983, and by 2.5 percent in 1984 as the export picture brightens."

Next year consumer spending and capital outlays are expected to make the major contributions to the growth of the economy. "Lower interest rates, a fall in the inflation rate, lower oil prices, and the stage of the inventory cycle are positive factors in the outlook. Investment in machinery will grow at about 2.6 percent per year, slightly better than the 2.2 percent increase in real GNP over the next five years."

Over the long run, however, one panelist sees some dark shadows over the German economy. "Germany is falling farther and farther behind in the international race to create new industries based on microelectronics and information technology. Too often the Germans waste their time trying to reinvent the wheel. They have, moreover, an ossified and rigid educational system, with students showing little interest in advanced engineering studies, simply because jobs in those fields carry little prestige. There is just a basic lack of future-oriented thinking and innovation." Another adds: "Unless Germany moves more aggressively into the export of high-technology products, continued growth in its external sector will not be sustainable."

Germany: An Inside View

The German Institute for Economic Research, a private organization based in West Berlin, sees the present recovery continuing in 1984. Although investment in machinery and equipment, which is making a major contribution to this year's economic upturn, will become less buoyant, export demand is expected to strengthen considerably next year.

Reflecting a continued economic revival in the industrial countries, German exports in 1984 may actually expand faster than world trade as a whole. However, even an average export growth rate for the year of about 4 percent would still be markedly lower than the average for the 1970's.

In its *Economic Bulletin* for August 1983, the Institute comments: "Despite this stimulus, there is unlikely to be a sustained improvement in the economy as a whole, mainly because of the consolidation policy which the financial authorities continue to pursue, undeterred by the unimpressive track record of the past few years."

Italy. In a special section on Italy in *The Wall Street Journal* last September, an Italian contributor noted: "Foreign observers of the Italian economy are often misled into either excessive gloom or unwarranted optimism. Perusal of some macrodata. . .usually elicits the first reaction, which may reach extremes. . .Realization that the worst never occurs and crises are successfully overcome may, on the other hand, lead to uncritical confidence in the resilience of the economy and the miracles performed by its productive sector."

And in his new book, *The Europeans*, veteran Italian journalist Luigi Barzini writes: "Italy is universally considered a particularly unpredictable and deceptive country. Some people even believe that this is the only absolutely certain thing about it. They are, of course, right some of the time, but also wrong as often."

The sense of amazement that the Italian economy somehow manages to survive economic crises and frequent changes of government has tinged the responses of the Conference Board's panel for a number of years. One respondent writes: "There remains the somewhat broader question whether, in the long run, Italy can have a sounder economy, a stronger government, and a larger role in international affairs. Italy's economy has not collapsed and somehow manages to cope. Some of Italy's neighbors have, in fact, begun to wonder whether Italy's somewhat chaotic approach to doing things might not be just as effective as their own more planned policy approaches."

Other responses range from somewhat gloomy to slightly optimistic:

- "Our numbers include a downward revision of growth in Italy, reflecting the severity of Italy's structural difficulties. Serious distortions have developed in the nation's fiscal system due to widespread tax avoidance and abuse of social benefit programs. These circumstances have caused the budget deficit to rise to an extraordinary 16.5 percent of gross domestic product this year, accentuating an already serious imbalance between monetary and fiscal policies."

- "A moderate economic recovery is expected to begin in the second half of this year, but real growth for the full year will be down 0.5 percent, followed by close to 3 percent growth in 1984. Financial constraints, coupled with high nominal interest rates, will continue to deter private-sector investment."

- "No growth in real GNP is expected before early 1984. The inflation rate will continue in the 14 to 15 percent range, the highest among the major countries of Europe."

- "Italy's prospects look quite good for the next two to three years. Industrial production is predicted to grow dramatically and there are strong signals of harmony between business and the labor unions. These factors should boost Italy's imports and exports through 1985."

United Kingdom. The United Kingdom has shown the strongest signs of recovery of all the European countries—"both in timing and strength," one panelist notes—with the GNP growth rate for 1984 variously projected at between 1.6 and 2.25 percent. But in the longer run, the country's economic growth may well continue to lag behind the rest of the industrialized world and may not be sufficiently robust to make a dent in the unemployment level. It is estimated that annual growth of at least 2.5 percent or more would be required for a number of years to affect unemployment.

Yet, as *The Times* noted last September: "There are many industrialists and politicians on both right and left who believe that the present upturn is unsustainable without government action to stimulate the economy, because it relies almost entirely on higher consumer spending and a slower rundown of stocks by companies, which will soon lose impetus." Indeed, recently released second-quarter figures seemed to indicate that the recovery already had begun to slow down sharply.

One panelist agrees fully with this longer-range outlook: "The British economy remains greatly troubled despite the probability of respectable economic growth. Even with lowered inflation and a weakened pound, Britain's is a relatively high-cost economy. This explains why the country may be dangerously close to becoming a net importer of manufactured goods. We think some measures will be taken to rebuild the nation's capital structure, but growth will still be below European averages."

Another links investment and export performance: "Manufacturing investment may be picking up slightly, but this is insignificant compared with the very sharp decline in real terms over the last few years. Export growth, already inhibited by the relatively weak recovery outside the United States, is thus supported by rather obsolete equipment."

Even where the rebound in activity in 1983 is acknowledged, danger signals are seen further down the road: "The progress against inflation has been one of the most dramatic in Europe—from an 18 percent increase in consumer prices in 1980 to a current below-5-percent annual rate—but it was achieved at a tremendous cost in terms of unemployment and industrial dislocation. While real GNP is expected to grow by 3.5 percent this year, the generally restrictive policies of the Thatcher government could lead to slower growth in 1984 and 1985." Another panelist concurs: "Margaret Thatcher's recently reelected government is expected to continue tight control over government spending and borrowing. The rate of inflation—sharply reduced during the last few years—is expected to average about 6.5 percent both this year and next."

Table 2: Selected Projections of GNP and Price Changes, 1984, for Smaller Industrial and Major Developing Economies (annual rates, in percent)

	Real GNP	Consumer Prices		Real GNP	Consumer Prices
Argentina	3.0	200.0	Mexico	-1.0	70.0
	4.2	170.0		1.5	80.0
Australia	2.5	6.0	Netherlands	2.0	3.0
	3.1	8.3		2.5	4.0
Belgium	1.5	6.5	Philippines	3.0	12.0
	2.0	8.0		3.0	16.0
Brazil	-3.0	115.0	Singapore	5.5	4.0
	-1.5	130.0		8.0	5.5
Hong Kong	5.0	8.5	Taiwan	5.5	8.0
	5.0	10.0		5.8	3.2
Korea	7.0	7.5	Venezuela	-1.0	25.0
	9.0	16.0		0.0	30.0

Other Countries

This section presents selected comments by panelists on eight additional countries. Projections for these (plus some other) countries are given in Table 2.

"*Argentina's* economy appears to be stabilizing after a protracted recession which saw real gross domestic product (GDP) decline by a cumulative 12 percent over the past three years. With improving agricultural output and increased domestic production for import substitution, real GDP is expected to grow by 1 percent this year. A new government is likely to take over in 1984, introducing stimulative measures, which could lead to some acceleration of growth. Such stimulative measures would preclude much improvement in this year's 280 percent inflation rate."

"*Australia* is in recession, with a decline in real GDP of at least 1 percent expected for 1983. With the drought now ended, government measures to stimulate economic activity and a gradual recovery in exports could lead to growth of 1 percent or better in 1984. The average rate of inflation is expected to continue at 11 percent in 1983, easing only slightly to 10 percent in 1984."

"In *Brazil,* intensified austerity measures related to the refinancing of external debt are expected to result in a decline in real GDP of 4 percent in 1983, and a further decline of 2.5 percent in 1984. Inflation will continue at very high levels through 1984."

"*Hong Kong's* economic outlook will depend over the longer term on the timing and extent of an improvement in world trade and the colony's ability to benefit from it. Movements to diversify Hong Kong's export products and markets will go forward, but the colony will continue to look to textiles and electronics as important sources of export income."

"*Korea's* economy has made a real turnaround from 1980, and its most impressive achievement has been in bringing down inflation. Although a major exporter of certain products such as textiles, steel and footwear, Korea is still small potatoes in such markets as machine tools and other heavy-industry products. Official plans envision gaining market shares in these types of products even in a poor economic climate. Korea undoubtedly will have some success in this program, but not enough to return to GNP growth much in excess of 6 to 6.5 percent annually."

"*Mexico's* economic situation seems to have stabilized somewhat in recent months, although in 1982 the economy declined for the first time since the 1930's. Under the IMF's austerity measures, the domestic economy could remain weak for the next two to three years. The oil reserves remain as a national asset, and oil exports will pay for most of the debt service. In about three years' time, the Mexican economy could become more efficient with a more diversified export base and with growth resuming in the 2 to 4 percent area. Inflation will remain a problem."

"The contraction in *Taiwan's* business activity in 1982 was much sharper than anyone had expected, and it may take a good part of this year to get Taiwan really back on a growth path. As the world economy regains its vitality, this well-managed economy, with its low inflation and solid external finances, will definitely be among the fast-track nations."

"The *Venezuelan* economy is in a recession which will probably continue into 1984. Real GDP is estimated to decline by about 3 percent in 1983, with a further decline of 0.5 percent projected for next year. Inflation has accelerated following devaluation of the bolivar and is expected to average 30 percent in both 1983 and 1984."